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Soviet Economic Problems and Prospects

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SOVIET ECONOMIC PROBLEMS AND PROSPECTS

SUMMARY AND CONCLUSIONS

A. The USSR has a powerful economic base and the necessary resources for further development. Its GNP has grown by some 80 percent in the past decade and is now about half that of the US. It achieves rapid growth in industrial production especially in heavy industry and maintains a costly modern military establishment second only to that of the U.S. (*Paras. 1-2*)

B. Nevertheless, in terms of annual growth, the Soviet economy has been slowing down across the board for the past six years. In some key sectors, such as industrial production, the decline in growth rates has been appreciable. In others, such as investment, it has been steep, and in still others, including agriculture, there has been virtually no growth at all. (*Para. 4*)

C. This general slowdown in growth rates, in part the result of increasing expenditures on defense and space programs, has led in recent years to a somewhat more sober official appraisal of both economic capabilities and prospects. It has also been accompanied by considerable controversy within the leadership and by intense competition for resources among various civilian and military claimants. Problems of this nature were greatly complicated in 1963 by a nearly disastrous wheat harvest and were at least partly responsible in 1964 for the decision to remove Khrushchev. (*Paras. 3, 7-9*)

D. While the new Soviet leadership has come out publicly in favor of a more consumer-oriented economic plan for 1965, we expect only modest changes in economic policy in the coming year, in part because the collective leadership is likely to temporize over hard choices.

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More rational attention may be devoted to the feasibility of various goals, however, and some further organizational changes are almost certain. (*Paras. 37, 39, 42, 45*)

E. Industrial production during 1965 could increase by as much as seven percent, compared to about six percent in 1964. Assuming normal weather, agricultural production in 1965 might exceed that of the very poor year 1963 by up to 15 percent. (*Para. 46*)

F. Such fundamental problems as the overcommitment of resources, inadequate agricultural production, and slower growth cannot be dodged over the longer term. One of the principal issues which must sooner or later be faced is the question of defense spending and its effects on other sectors of the economy. We believe that the new regime desires to restrain the growth of defense expenditures and that the new budget reflects a continuing tendency toward leveling off. We estimate that, barring important changes in the international situation, major changes in Soviet defense spending in either direction are unlikely, but that such spending will edge upward in the years ahead. (*Paras. 53-54*)

G. Probable Soviet military and space programs through 1970 foreshadow greater requirements for highly skilled engineers and scientists, complex machinery, and high-cost materials. This is the aspect of defense spending which hampers efforts to raise productivity in the civil economy. Even if defense spending were to increase by as much as one fifth during this period, however, the Soviet economy could shoulder the burden and at the same time gradually improve the equipment and technology of industry and the standard of living. If, on the other hand, defense spending were to decrease slightly, the absolute requirement for these scarce resources would be little different from that of 1964. In these circumstances, with an increasing supply of these resources, made available by general growth, the strain on the civil economy would be eased. (*Paras. 19, 55*)

H. The marked decline in the rate of return on investment in the USSR since 1959 strongly suggests that not even a major reallocation of resources and thorough-going economic reform would be likely to restore the high growth rates of the 1950s. The range of growth rates for Soviet GNP which seem realistically possible through 1970 is from four to six percent annually. The Soviet leaders will be dis-

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appointed by such a rate. As problems continue and even multiply, and as shifts in domestic politics and on the world scene occur, controversy may grow and one or another leader may come to advocate new and far-reaching programs calculated to attract support from other leaders and interest groups. Whatever the shape of future political contention, or its outcome, economic policy will almost certainly remain a key issue. (*Paras. 49, 51-52, 58*)

I. The picture is different if Soviet economic prospects are viewed, not against the ambitions of the leadership, but against the performance of other developed economies. An overall growth of four to six percent annually during the remainder of the decade would still represent a respectable achievement. Under any likely scale of priorities, the USSR will be able to strengthen an already formidable military capability, sustain a vigorous space program, and provide resources for a foreign aid program which can help to maintain and extend Soviet influence abroad. (*Para. 59*)

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DISCUSSION

I. GENERAL TRENDS

1. The USSR has a powerful economy and the necessary resources for further development. Its GNP has grown by some 80 percent in the past decade and is now nearly half as large as that of the US. It maintains a costly modern military establishment second only to that of the US, and achieves rapid—albeit spotty—growth in industrial production and technology. Over the past decade industrial production has doubled and is now nearly half that of the US. By US standards the lot of the Soviet consumer is drab—real per capita consumption is less than one-third that of the US—but by his own past standards, and by the standards of all but a few nations of the world, his lot is tolerable.

2. In some areas of economic effort, the USSR has made particularly notable progress over the past decade or so, especially where the leadership has chosen to concentrate resources and effort. Traditionally, heavy industry and the industries supporting the military establishment have been given priority emphasis, and they have achieved some excellent results. For example, steel production has grown rapidly, reaching some 85 million tons in 1964 or about 44 million more tons than in 1954. Similarly, oil production reached some 224 million tons in 1964 or about 164 million more tons than in 1954. These records have been attained concurrently with impressive programs in the military and space fields which have also required the use of great quantities of resources and of considerable technological skill. Thus, though it has fallen short of many ambitious goals, the Soviet economy has done quite well in many sectors of greatest concern to the leadership.

3. Nothing on the domestic scene, however, has so consistently agitated the Soviet leadership as the question of how best and for what purpose to use the economic resources at its disposal. This problem, involving a broad array of sensitive political issues and touching on the prerogatives and aspirations of all the major interest groupings in the society, has become the subject of a great and widening controversy. In this situation, Khrushchev sought at times to be a coordinator and compromiser of disputes, at other times to be a leader and an innovator of policy, but he was frequently unable to resolve the controversy or to proceed resolutely with a program of his own.

4. The removal of Khrushchev, however, does not in itself resolve the controversy or provide his successors with ready solutions to their principal economic problems. The rate of growth of the Soviet economy has been slowing down across the board for the past six years. (See Figure 1.) In some key sectors, such as consumption and industrial production, this decline has been appreciable. In others, such as investment, it has been steep, and in still others, including agriculture, there has been virtually no growth at all. At the same time, there

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has been a fairly consistent and impressive rise in defense expenditures and this has contributed substantially to the slowdown in the advance of the economy as a whole.¹

5. This general slowdown in growth has come at a time when the country's resources have been asked to meet an unprecedented array of ambitious and competing objectives. In the optimistic spirit of the times, Khrushchev in 1958 issued his call for economic competition with the West, promised his own people dramatic advances in living standards, further committed himself to maintain a large-scale foreign aid program, and began to increase the allocation of scarce resources to the USSR's modern weapons and space programs. The difficulties since encountered in the effort to fulfill Khrushchev's grand design for the economy have had an impact on a broad range of Soviet policies, both foreign and domestic.

6. Internationally, the USSR's inability to meet its well-publicized goals tarnished its prestige. These difficulties have also contributed to the relative restraint of its foreign policy toward the industrial West, the potential supplier of advanced machinery and credits. Within the Communist movement, Soviet economic policies have been attacked from both left and right; attempts to gain greater managerial efficiency and to increase the quantity and quality of benefits for consumers have been challenged by the Chinese as manifestations of "bourgeois capitalism," and derided by some Western Communist parties as vacillating and insufficient. Internally, the economic situation has led to considerable disagreement among politicians, planners, and military figures, and fostered considerable economic discontent and political skepticism among the people at large.

7. As time went by, Khrushchev became increasingly concerned about the progress of the Soviet economy, and the impact on it of rising military costs. For the most part, however, the Soviet leadership was unwilling or unable to face up to its economic difficulties in an effective way; it relied, instead, principally on political exhortation, patchwork programs of administrative reorganization, compromises between contending points of view about resource allocations, and demands for the exploitation of what it calls "hidden reserves." Only in the past year or so have there been some signs that the leadership, especially Khrushchev, was prepared to deal more decisively with some of its problems. Khrushchev, in the period immediately preceding his removal, may finally have tired of debate and delay. His remarks to farm audiences in August advocated individual responsibility for specific crop areas, and his last appeal in September for a consumer-oriented long-term plan suggested that he had decided to override the doubters and dissenters in order to push ahead with plans of his own.

8. In any event, the problems of the Soviet economy and Khrushchev's erratic efforts to deal with them contributed to his downfall. Surely, the indictment against his leadership would include: (1) a long series of agricultural schemes

¹ This and all other references to defense expenditures include both military and space spending.

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which tampered with doctrine, interfered with production, and attempted to play games with nature; (2) his peculiar faith in the magic of reorganization, which led him into a variety of party and state shuffles that first gave, then took away, decentralized, then recentralized; and (3) most important, his ebullient optimism, which led him repeatedly to over-estimate the ability of available resources to satisfy the demands of his various programs. The record as a whole, revealing shortcomings of both style and content, clearly provided Khrushchev's colleagues with both reason and pretext for this ouster.

II. PROBLEMS OF THE ECONOMY *

A. Recent Background and Policies

9. The USSR's economic problems were greatly aggravated in 1963 by a nearly disastrous wheat harvest. The situation clearly called for both short-term emergency measures, to compensate for agricultural failures, and longer term remedies perhaps involving a restructuring of investment priorities or a general stretchout of economic goals.

10. The leadership responded to the immediate emergency by rejecting proposals to introduce food rationing, apparently fearing the reactions of increasingly disgruntled consumers; it elected, instead, to use its already depleted gold stocks for the purchase of some \$800 million worth of wheat and flour from the West. The response to longer term problems has been less clearcut. Khrushchev's announcement of a vigorous new program for the chemical industry in 1963 did indicate some revisions in investment priorities, but, during the first half of 1964, both the leadership and the planners seemed to behave in a manner reflecting confusion and uncertainty. In any case, while awaiting the results of the 1964 harvest, the regime was understandably reluctant to draft new programs and commit resources.

11. The situation did, however, force the leadership during the past year and a half to wrestle somewhat more realistically with the root causes of long-term weaknesses in the economy. In launching the new chemical program of 1963, for example, it acknowledged the necessity of seeking help for these programs from the West, in the form of plant, equipment, technology, and credit. And, in this same period, it was compelled to consider ways and means of curbing the serious drain on high quality resources imposed by defense expenditures. In the second half of 1964, the regime was occupied with the question of ways of improving consumer welfare, and Khrushchev in September designated this as the chief task of long-term planning. It was also led to reopen public discussion of how best to manage and plan the economy in the years ahead—it was at least (and at last) willing to listen carefully to the ideas of the economists who were critical of the inefficiencies and inadequacies of the existing system.

12. The success of the 1964 harvest has relieved the economy of its most pressing immediate burden. Largely because of the contrast between the last two harvests, GNP, in 1964, rose by perhaps as much as six percent, twice the

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average rate of the two preceding years. But, this success—resulting primarily from favorable weather—does not in and of itself promise relief from the main problems besetting the economy. Moreover, official statistics concerning economic performance during the first nine months of 1964 reveal a further decline in the rate of growth of both industrial production and labor productivity.

B. Problems and Performance in Key Sectors of the Economy²

Agriculture

13. In the five years following the death of Stalin, Soviet agricultural production grew by more than 40 percent. Largely on the basis of this record and its unjustified optimism about the productivity of new programs, the leadership adopted a seven-year plan (1959-1965) which implied an increase in net production of some 55 to 60 percent. Production did subsequently reach a new peak in 1961, but fell by a total of some six percent during the next two years, principally because of poor weather. Total output in 1963 was below that of 1958, and was less by some 10 percent on a per capita basis (see Figure 2).

14. Crop production in 1964 should at least equal that of the very good year of 1958. Grain production for 1964 is estimated tentatively at 125 million metric tons, contrasted with the 1963 total of about 95 million. This will permit some replenishment of the state's depleted grain reserves, eliminate the need for imports of wheat and flour, and assure that last year's bread shortages will not be repeated. But the sorry state of livestock will limit the gains in diet; on a per capita basis, 1964 crop and meat production was below the highs of the late 1950s.

15. The Soviet leadership has recognized that the USSR's food problem is basic and long-term. Investment in agriculture since 1960 has grown at a substantially higher rate than investment in any other sector of the economy except chemicals. Ambitious plans for increases in the production of fertilizers, pesticides, herbicides, and appropriate farm machinery, reiterated by Khrushchev in the spring of 1963, have been stepped up, and programs for large-scale irrigation, extensive application of lime, and combating wind erosion have been announced. In the area of incentives, the regime has raised the prices paid for a number of commodities, instituted a pension program for collective farmers, and—since Khrushchev's ouster—relaxed certain restrictions on private holdings of land and livestock.

²Throughout this estimate the aggregative statistics or indexes which are presented have been calculated by CIA. Soviet official statistics are not used unless otherwise indicated. Most of the official Soviet aggregate measures of growth in the economy (such as national income, industrial and agricultural output) are not accepted by Western economists. Moreover, some official commodity data such as those relating to grain production have been rejected. Substitute measures constructed by us and other Western economists almost invariably indicate that there are substantial degrees of over-statement in the Soviet measures.

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16. Though post-Stalin efforts to rescue Soviet agriculture from years of neglect did succeed in improving the lot of the peasant and boosting production, many problems have been ignored, dealt with inadequately, or aggravated by ill-conceived solutions. The general malaise of Soviet agriculture is the consequence of party, state, and local mismanagement, backward technology, inadequate supplies of chemical products and farm machinery, shortages of trained agricultural specialists, insufficient incentives for the peasantry, official discouragement of private (and more productive) agricultural activity, and in general, insufficient and misdirected investment.

Industry and Industrial Investment

17. Unlike the situation in agriculture, Soviet industrial output has continued to grow at a moderate rate in recent years and has made vigorous advances in a number of specific areas. Nonetheless, there has been an appreciable slowdown in the annual rate of industrial growth; we estimate that the average annual growth rate fell from about 8½ percent for the years 1956-1959 to about 6½ percent for 1960-1963.³ The growth of industrial production in 1964 is tentatively estimated at about 6 percent.

18. This slowdown is associated with a severe decline in the rate of growth of investment in new plant and equipment. Investment in industry, which rose by about 14 percent annually in 1958 and 1959, increased by only 3½ percent annually in 1962 and 1963; preliminary indications do not suggest a substantial improvement in 1964. The amount of investment in construction and construction materials, which grew at a rapid rate until 1960, declined absolutely in both 1962 and 1963. Despite these trends, the Soviets have managed to maintain a fairly steady increase in the accumulation of industrial plant and equipment. They have done so principally by greatly reducing the rate of retirement of older facilities and by stepping up expenditures for their repair. These procedures compensate for the falling rate of investment but do so at a high cost in terms of productivity. Thus the average annual rate of growth in plant and equipment in 1956-1959 came to about 11½ percent and was associated with an average annual rate of growth in industrial output of about 8½ percent. By contrast, in 1960-1963 an average annual rate of increase of about 11 percent in industrial plant and equipment sustained an increase in output of less than 6½ percent per year.

19. Among the factors contributing to this lag in productivity gains is the difficulty in getting new plants into operation and in keeping old plants in full operation during a period of rapid technological change. But perhaps the single most important factor is the demand of the defense program since 1958 for scarce resources and highly trained manpower. The concentration of these

³ See Table 2 for average annual rates of growth, 1951-1963, by branch of industry. See Table 3 for estimated production figures of major industrial items (iron, steel, fuel, power, etc.), 1959-1963 and planned figures for these items, 1964-1965.

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specialized resources on research, development, production, space activities, and deployment of advanced weapons has interfered seriously with the introduction of new technology in industry (e.g., automation and new chemical processes).

The Chemical Industry

20. The big increase in output of chemical products is a key part of the Soviet effort to step up the rate of economic growth. The program is intended to achieve a wide range of objectives: to support an upsurge in agricultural production, to provide the consumer sector with large quantities of synthetic fibers, and to supply industry with a variety of substitutes for more costly metals. In 1964, the performance of the chemical industry was impressive, although not all the goals were met. Investment rose sharply, and overall production grew by about 18 percent, with particularly high rates of growth in fertilizers and pesticides. Despite this progress, a number of major shortcomings continue to plague the industry, including planning errors, construction delays, lack of skilled personnel, and slow rates of achieving capacity operations at new plants. As a result, increases in output have been achieved at high cost.

21. The new leaders are making significant short-term adjustments in this program. In 1965, they are stressing the completion of unfinished plants, and, more important, the bringing of new plants up to designed rates of output. In order to concentrate resources on these tasks, they apparently intend to start fewer construction projects in 1965 than Khrushchev had intended to launch. This decision is reflected in a slower rate of increase in new investment and a go-slow policy on imports of Western chemical equipment.

22. We believe that these modifications are intended only to divest the chemical program of its "crash" nature, and that the new leaders continue to regard it as critical to the tasks of economic modernization and growth. In framing the Five-Year Plan (1966-1970), they may scale down some of Khrushchev's more ambitious 1970 chemical targets, but the new goals almost certainly will reaffirm a high priority for this industry. The setting of new targets will require, however, a careful consideration of credit and repayment possibilities for Western equipment and technology. It will also require a close scrutiny of those scarce resources—sophisticated equipment, complex construction techniques, and highly skilled personnel—for which chemistry will be competing with other key sectors in the coming period.

Military and Space Programs

23. We estimate that after a decline from a peak in 1955, Soviet military and space expenditures began to rise in 1959 and by 1962 were about 25 percent greater than in 1958. We further estimate that these expenditures continued to grow in 1963 and 1964, though at a much slower rate than in the previous four years. The impact of these programs on the machinery and equipment sector of the economy has been particularly great; expenditures on military machinery during 1959-1964 rose faster than total defense expenditures.

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24. This pattern of growth was due principally to the development and production of complex new military equipment and space hardware. For example, we estimate that expenditures in 1963 for the procurement of advanced weapon systems (missiles, ground-based electronics, and nuclear warheads), for research and development, and for space programs were twice the 1958 level. (See Table 4.) We believe that these expenditures increased slightly in 1964. These programs usurped specialized skills and resources critically needed for other important economic objectives.

Foreign Trade

25. The total value of Soviet trade in 1964 amounted to about \$15 billion. About two-thirds of this was with Communist countries; about one-fifth (\$3 billion) was with the industrial West. For the past decade, purchases from the West have consistently exceeded exports and resulting convertible currency deficits have been financed largely through medium-term credits and substantial Soviet gold sales. As a consequence, estimated Soviet gold reserves have dwindled from \$3 billion at the end of 1954 to about \$1.5 billion at the end of 1964. The convertible currency deficit, about \$100 million in 1959, reached an estimated \$700 million in 1964. (See Tables 5, 6, and 7.)

26. Soviet imports of Western machinery grew from about \$200 million in 1958 to about \$600 million in 1963. Of the 1963 total about one-fourth was equipment for the chemical industry. In 1964 these imports have not yet strongly reflected the impact of the new chemical program announced in December 1963. Contracts for chemical plants and equipment let since December 1963 now total only some \$200 million, although discussion with Western suppliers has offered the prospect of a much larger program. Because repayments on past, medium-term credits are increasingly offsetting new drawings on such credits, large net additions to Soviet capital equipment imports would likely require substantial long-term financing.

27. The USSR has strictly curtailed imports of industrial raw materials and new orders of industrial equipment from the Free World throughout the past 15 months. Soviet reluctance to undertake a substantial expansion of equipment imports over the past year, despite Western offers of at least \$650 million in long-term credit, probably indicates both heightened concern for the Soviet international reserve position and greater official uncertainty about the allocation of investment funds than we had previously postulated. It is possible that signing of credit-financed contracts may increase after the new Five-Year Plan has been clarified. However, the Soviet regime is aware that its past rate of growth of exports (of both gold and commodities) will be more difficult to maintain in the future. The recent caution in accepting the commitments for future repayments that large credits entail suggests that the regime is delaying decision until its export prospects become clearer.

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Foreign Aid

28. The hiatus in Soviet extension of economic aid to less developed countries of the Free World was ended as new credits rose from only \$75 million in 1962 to around \$250 million in 1963 and some \$800 million (most of it to India, the UAR, and Algeria) during 1964. Cumulative Soviet commitments in credits and grants to non-Communist countries now total \$4.3 billion. While only about \$1.4 billion of this has as yet been drawn, the rate of expenditures has been rising rapidly, reaching an estimated \$400 million in 1964; repayment rates have also been increasing and should total about \$100 million this year. Credit extensions under the 10-year-old Soviet military aid program to non-Communist countries now total some \$2.8 billion, most of which (about \$2.5 billion) has been drawn upon. Since these Soviet programs do not involve either gold or convertible currencies, and do not ordinarily require goods readily exportable to the West, they do not materially affect the Soviet gold or hard currency position.

Consumption

29. The hopes aroused by extravagant promises, and by fairly substantial increases in both the quantity and quality of consumer goods and foodstuffs during the 1950's, have been sorely disappointed since 1960 by a sharp decline in the growth of per capita consumption. (See Table 8.) Indeed actual setbacks to the consumer, such as the major price increases on meat and butter in 1962 and the shortages of bread and flour in 1963, have led to sporadic demonstrations of discontent.

30. The economy also suffers from inflationary pressures. Disposable money income and consumer expenditures rose in roughly equal proportion during 1956-1960, but thereafter the growth of income, though it slackened, outran expenditures. The effects of agricultural difficulties and a slump in the output of soft goods were soon felt in the retail market. Prices on the free (collective farm) market—a good barometer of inflationary pressures in the USSR—began to rise and by 1963 the official index of these prices was 18 percent above the 1960 level. The regime responded in 1962 by raising certain food prices, postponing scheduled increases in minimum wages, and halting the program for the abolition of the income tax. But, in July 1964, Khrushchev reactivated a two-year program—postponed since 1962 in part as a result of economic problems and defense needs—which will further stimulate inflationary pressures. As reaffirmed by his successors, some 18 million workers in service industries are scheduled to receive a 21 percent wage rise, the basic minimum wage is to be raised from 27-35 rubles to 40-45 rubles per month, and the state is to contribute to a pension fund for collective farm workers.

Organization and Management

31. The economic planning and administrative system in the USSR works, but not well. Enterprise managers are harassed by detailed requirements and by poor coordination of plans for production and supply and are frequently en-

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couraged to produce the wrong assortment of goods by the regime's standards for measuring success. Authority and responsibility at levels above the individual enterprise are diffused among a variety of local party and state organs and a vast number of central organizations. The top planners themselves face an ever mounting volume of detail and must make decisions partly on the basis of an artificial price system which, among other things, does not reflect relative scarcities. The various reorganizations of the administrative apparatus which have taken place since 1957—including the strengthening of the party's role in 1962—do not seem to have helped matters and, indeed, may merely have added to the confusion and duplication.

32. Since 1962, "liberal" Soviet economists, including Professor Liberman, have proposed a number of reforms which, while not advocating an earthshaking transformation of the Soviet economy, would in some ways tend to give the system a cast of "market socialism." They reflect, in the main, a preoccupation with methods of evaluating the performance and rewarding the success of economic enterprises on the basis of profitability. Some also suggest the establishment of pricing systems which would more nearly reflect supply and demand and which would provide a rational assessment of costs (including interest charges on capital). In general, these proposals would also involve the reorganization of planning systems so as to retain overall central control but to relieve enterprise managers from detailed and stultifying plans from the center.

33. In the spring of 1964, limited experimentation with a new system of premium payments for the directors and other top officials was introduced at some 80 enterprises. At the same time, the regime decreed a more far-reaching experiment at two clothing plants which involved the scheduling of output by type, quality, and, within limits, price, in response to orders from retailers. The new leadership has decided to extend this system to about a third of all clothing plants and shoe factories, and Kosygin has advocated the extension of a similar system to heavy industry.

III. THE CURRENT ECONOMIC SCENE AND SHORT-TERM OUTLOOK

34. The economy which Stalin left to his successors, centered as it was on the manufacture of steel and machinery, proved to be poorly suited to contemporary demands and opportunities. Over the past 10 years, the Soviet leadership has been striving to adjust production, technology, and the administrative structure to meet these demands and opportunities. But a variety of circumstances made it difficult to achieve the necessary reallocation of resources. These included the inertia produced by the existence of powerful industrial, military, and bureaucratic vested interests, ideological prejudices which inflated the importance of certain economic sectors and organizations, and a political environment which bred unrealistic goals.

35. To be sure, there has been a growing awareness in recent years that the economy was, in fact, lagging and that steps to revivify it were badly needed. During the latter half of 1963 and part of 1964, a number of signs pointed to

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a more sober official appraisal of Soviet economic capabilities and prospects. The relative modesty of economic goals for 1964-1965, the actual implementation of some new programs, as in the chemical industry, and recent public statements—especially Khrushchev's proconsumer pronouncements in late September—contained hints of a reorientation of economic policies for the future. Generally speaking, there was some reason to believe that the Soviet economy was facing a period of changing relationships among the major civilian sectors, and perhaps between these sectors and the military-space complex as well.

36. Nonetheless, nearly every recent economic program has stumbled and fallen short. At least some of this failure was due to Khrushchev's own peculiar approach to problems: his over-optimism, search for panaceas, sweeping campaigns and periodic reorganizations which led to confusion and waste. The few oblique statements on the reasons for Khrushchev's removal have highlighted the dissatisfaction of his successors with such matters as Khrushchev's style, his harebrained schemes, commandism, and armchair decisions. In this however, we think his successors exaggerate the costs of his leadership and overstate the benefits of his removal.

A. The Policies of the New Leadership

37. Khrushchev's successors have reaffirmed his broad goals for the Soviet economy, and we believe that they do not intend at present any major changes in the pattern of resource allocation. It is likely, however, that there will be fairly substantial changes in organization and methods of operation; these could produce some changes in the allocation of resources, even though broad objectives remain unaltered. One of the new regime's first moves was to eliminate the division of the party into industrial and agricultural components. A vigorous discussion continues in the press on ways to stimulate better economic decisions, suggesting that gradual reforms in this area are intended. A rumored change may strengthen central ministries responsible for single industries on a national scale, at the expense of the regional economic councils, which were designed to improve economic administration in individual areas of the country.

38. The new regime has indicated that it would like to proceed with the difficult task of allocating scarce resources without the jarring clatter of controversy over heavy industry versus light industry. Brezhnev's statement that heavy industry must serve the needs of defense, re-equipment of the economy, and consumers goods suggests a pragmatic approach—an intent to base plans for heavy industrial production on concrete objectives rather than making such production an end in itself. In addition, the new leadership has increased emphasis on modernization and quality of output, and will probably rely more on economic incentives and careful planning to introduce new technology and less on exhortation. Physical goals may be scaled down, but in the end more may be achieved than under Khrushchev.

39. The new regime has chosen to come out in favor of a consumer-oriented program for 1965. It has promised immediate and large gains in consumer welfare through a boost in planned money incomes and communal services and

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a step-up in housing construction. These measures are reminiscent of those promulgated after Stalin's death and again shortly after Khrushchev's ascendancy to supreme power in 1957, and are probably calculated, in part, to enhance the appeal of the regime. But the regime has also indicated that this emphasis on the consumer will be continued in the coming Five-Year Plan (1966-1970).

40. The leadership also announced a small cut in the explicit defense budget for 1965, which is associated with a US intention to reduce its own defense budget. Although the military activities financed through this account may be reduced somewhat in 1965, the elements of defense spending which have been growing most rapidly in recent years—research and development and space activities—are those which are not included in the defense account as announced. The small reduction in the overt defense budget planned for 1965 could easily be offset by increases in other defense-related accounts in the budget. We believe that no important cutback in defense spending has, in fact, been made, though it is probable that the new regime desires to restrain the growth of defense expenditures and that the new budget does reflect a continuing tendency toward leveling off.

41. In agriculture, the compelling question is the long-run food supply. Efforts to intensify and modernize agriculture are bound to continue, but manner and method will almost certainly undergo great change. The new emphasis is on a "rational" and "scientific" approach, as opposed to Khrushchev's crash programs and predilection for panaceas. The costly modernization of animal husbandry recently advocated by Khrushchev is likely to be shelved in favor of a less-precipitous development in the same direction. The New Lands will not be abandoned, but their importance will no longer be stressed, and the long overdue introduction of good farming practices is likely to be pushed energetically. Efforts to increase incentives will figure prominently.

42. There is, of course, a limit on what the leadership can do in the coming year concerning the reallocation of resources to the benefit of the consumer, and the 1965 plan does not, in fact, indicate any major shuffling of resources. But if the regime holds down military spending, and makes improvements in operational and managerial efficiency, it could lay the groundwork for more far-reaching changes in the coming Five-Year Plan.

B. Economic Controversy

43. There are a multiplicity of issues and a profusion of interest groups within the Soviet command structure. Certainly many military leaders and representatives of the older branches of heavy industry would welcome the end to the kinds of pressures Khrushchev exposed them to, including force cuts and diatribes against "metal eaters." Many in the party apparatus would favor a return to old doctrines, including the ideological insistence on priority development of heavy industry, and regularization of the chain of command. Vested interests in the central bureaucratic organs would also resist any administrative changes in the direction of decentralization. Even those functionaries most

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closely associated with the agricultural and chemical programs might applaud an end to helter-skelter management and a letup in the drive for fast results.

44. There are also contrary interests and ideas represented at the upper and middle levels of the political and economic hierarchy. There are probably numbers of officials who recognize the desirability of adjusting the economy to meet new requirements and the demands of consumers and who would perceive the dire consequences for their own areas of interest if further resources were diverted to defense programs. There are also influential economists who recognize many of the ills of the Soviet system and who have campaigned for structural and allocational reforms. And there are middle-level functionaries in both party and state organs who have developed vested interests in one or another of Khrushchev's pet programs and who would thus resist any efforts to tamper with the *status quo*.

45. We believe that controversy over economic policy is likely to continue and perhaps even grow. But, politically, the safest immediate course is one of compromises, and Khrushchev's successors are likely to move cautiously in most areas of economic policy. The charges of erratic and irrational behavior against Khrushchev no doubt reflected, among other things, genuine dismay among his colleagues; in any case, each of them will now seek to avoid an approach which could lead to a similar indictment. The collective nature of the present leadership will also probably restrain for the time being any impulses toward either forward leaps or major retreats.

C. Economic Performance

46. The growth of industrial production during 1964 was about six percent. This rate could improve somewhat during 1965, perhaps to seven percent, as a result of improvements in agricultural raw materials supply, some additions to capacity brought in by the completion of various construction projects, and some diminution of the confusion occasioned by shifting targets and changes in organization. Assuming normal weather, agricultural production in 1965 might exceed that of the very poor year 1963 by up to 15 percent (a level no better than that of 1958 on a per capita basis). Larger amounts of fertilizer will be available for grain crops and could produce an increase in the harvest equal to the amount of grain which had to be imported in 1963. The output of chemicals could approach the planned increase of 36 percent for the two-year period.

IV. LONG TERM OUTLOOK

A. Basic Long Term Problems

47. The development of the Soviet economy has failed to keep pace with the expectations of the men who control it. This lag has led to many-sided controversies within the Soviet leadership over how best to accomplish economic aims and just what the priorities among various objectives should be. These

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disputes have centered in the main on two issues, the proper allocation of resources, and the best methods and institutions for planning and administration. An essential problem for Khrushchev's successors, then, is to find some way of fashioning policies which can somehow both resolve the disputes and restore momentum to the economy.

48. In the matter of resource allocation as it affects economic growth, the traditional argument of heavy industry versus light industry and agriculture in effect missed the main issue. This way of putting the question obscured the fact that heavy industry serves the need of defense, of consumer-oriented sectors, and of investment for further growth. The key problem really was what kinds of heavy industry should be emphasized, e.g., for missiles or chemicals, and in what proportions. Khrushchev was on the right track in characterizing the task as one of investing in the newer industries which could make the most effective use of capital and which could better meet the emerging demands of an economy striving to modernize. Aware of the competition of the military, he sought to limit its allocation. But he chronically underestimated costs, first of missiles, then of chemicals, and probably of irrigation and the mechanization of agriculture as well. His characteristic over-optimism brought him into conflicts not only with those who disliked his objectives but also with those who shared them but gravely doubted the feasibility of his programs.

49. In order to achieve high rates of growth, it is necessary for investment—and hence heavy industry—to grow faster than other areas of output. The growth of plant and equipment (maintained by a corresponding growth of investment) must be at a significantly faster pace than the rate of growth of GNP; in the 1950s, plant and equipment in the entire economy grew at an annual rate of nine percent, sufficient to maintain an average increase of some seven percent in GNP. Since 1959, this relationship has become more unfavorable—it now appears that an annual growth of nine percent in plant and equipment might sustain an annual GNP increase of only five percent. This decline in the productivity of capital, i.e., the increase in output associated with a given increase in plant and equipment, has come about largely because the Soviets have exhausted many of the easily available opportunities for applying new technology. Prospective increases in the size of the labor force are not adequate to offset this trend.

50. This trend strongly suggests that not even a major reallocation of resources and thoroughgoing economic reforms would be likely to restore the high growth rates of the 1950s. The Soviet leaders, however, will be loath to accept this conclusion, and in their search for ways to overcome the lag, they seem inclined to consider new methods of planning and administration. In the process, it has become clear that, at the present stage, Marxism-Leninism offers little guidance. In fact, it is notable that all current proposals draw inspiration from Western practice or from "market socialism." The direction of current thought suggests that the Soviets, like the East Europeans before them, are perceiving the limitations of Communist doctrine as applied to a modern economy and that, at least in this field, they recognize that need for change.

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51. While the collective leadership, as long as it lasts, is likely to temporize, various foreign and domestic issues cannot forever be avoided and the problem of the economy is likely to be among the most pressing. As problems continue or even multiply, and as shifts in domestic politics and changes on the world scene occur, one or another leader may come to advocate new and far-reaching programs calculated to attract support from other leaders and other interest groups. Whatever the shape of future political contention or its outcome, economic policy will almost certainly be a key issue.

B. Military Spending and Economic Growth

52. A central problem facing the new leadership is the question of defense spending and its effect on economic growth. The range of growth rates for Soviet GNP that seem realistically possible in the period 1964-1970 is from four to six percent annually, if the relative priorities given to various non-military programs retain roughly their recent pattern and if the weather conditions for agricultural production are normal. The actual growth rate attained within this range will depend in large part upon future levels of defense spending.

53. Current National Intelligence Estimates of Soviet military and space programs imply a range of future defense spending: on the high end, overall expenditures in 1970 might be about 20 percent greater than in 1964, and on the low side they might be about 10 percent below the 1964 level. The high end of the range would imply that expenditures for the procurement of advanced weapon systems, for research and development, and for space by 1970 would be some 40 percent greater than in 1964; on the low end, the 1970 level of expenditures for these weapon systems and programs would not be significantly different from that for 1964. Considering these and other factors, we believe that if Soviet defense expenditures in 1970 were 20 percent greater than 1964, Soviet GNP could grow some 25 to 35 percent over this period, or between four percent and five percent per year. On the other hand, if defense expenditures were to decrease to 90 percent of the 1964 level, Soviet GNP might grow about six percent per year and be some 40 percent greater in 1970.

54. We estimate that, barring important changes in the international situation, major changes in Soviet defense spending in either direction are unlikely, but that such spending will edge upward in the years ahead. If and when one man achieves primacy in the leadership, however, the chances of wider change will increase.

55. Given the uncertainties of both the estimates of civilian economic developments and the size and composition of the defense program, conclusions about the "burden" on the economy of defense expenditures can be stated only in general terms. Probable Soviet military and space programs through 1970 foreshadow an increase in the requirement for highly skilled engineers and scientists, complex machinery, and high-cost materials. Even if defense spending were to increase at the rate implied by the high side of the range, the Soviet

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economy could shoulder this burden and at the same time gradually improve the equipment and technology of Soviet industry and the standard of living. If, on the other hand, defense spending decreased as implied by the low end of the range, the absolute requirement for these scarce resources would be little different from that of 1964. In these circumstances, with an increasing supply of these resources, the strain on the civil economy would be eased.

C. Agriculture and Economic Growth

56. The future course of the Soviet economy will also depend on developments in agriculture. The essential feature of the long-term program for agriculture which Khrushchev formulated over the last year and a half was a substantial increase in grain output and a reduction of its annual fluctuations. This was to be accomplished by a major expansion of irrigation, and large increases in the application of fertilizer, particularly in areas of dependable rainfall.

57. It remains to be seen how much the new leadership will modify Khrushchev's ambitious program. Though we do not know how long it will last, the present partial relaxation of restraints on the size of private holdings of kitchen gardens and livestock suggests that the regime is searching for inexpensive ways to increase output. But the major increment to output during the balance of the decade must come from improvements in the socialized sector. It is almost certain that resources allocated to this sector will be increased over present levels. With the implementation of large-scale fertilizer and irrigation programs, we estimate that by 1970 agricultural output can be raised as much as two-fifths above the abnormally low level of 1963, and a third above the nearly normal weather year of 1962. This would imply an average annual increase of three and one-half percent over 1962, and would permit an average annual increase of GNP within a range of four to six percent.

58. In sum, the Soviet economy faces a variety of fundamental problems: unsatisfactory growth in rates of productivity, a declining return on investment, a shortage of high quality resources and skilled manpower, and a generally inefficient system of management. In addition, the economy will be crucially affected by political decisions respecting the allocation of resources, which in turn will be influenced by changes in the world situation unforeseen and uncontrolled by the USSR. In general, the Soviet leaders will almost certainly be disappointed by the performance of the economy throughout the remainder of this decade. They will be tempted to experiment, perhaps in a radical way, with the management and even with the basic organizational structure of their economic system. The whole situation will, in our view, be an important source of dissension within the top leadership, and a factor in the struggles for power which are virtually certain to occur.

59. The picture is different if Soviet economic prospects are viewed, not against the ambitions of the leadership, but against the performance of other developed economies. An overall growth during the remainder of the decade

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of four to six percent annually would still represent a respectable achievement. Under any likely scheme of priorities, the USSR will be able to strengthen an already formidable military capability, sustain a space program which can vigorously compete with that of the US, and provide resources for a foreign aid program which can help to maintain and extend Soviet influence abroad.

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ANNEX A

NOTE

Rates of growth and other statistical comparisons in the tables which follow have been carried out numerically to the degree required to make valid comparisons. The presentation of the data to the first decimal point, however, does not necessarily reflect a comparable degree of accuracy in either the absolute level of a given value or in the absolute difference between two values.

The base year used in deriving average annual rates of growth is the year preceding the given year.

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TABLE 1
USSR: INDICATORS OF ECONOMIC GROWTH
1951-1963

| INDICATOR | Average Annual Rates of Growth (Percent) | | | | | | | | |
|-----------------------------------|--|------|------|------|------|------|------|------|------|
| | 1951-1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 | 1963 |
| Industrial production..... | 10.2 | 8.6 | 8.6 | 8.6 | 8.5 | 7.3 | 6.9 | 7.0 | 5.8 |
| Total investment (new fixed)..... | 12.5 | 14.9 | 12.8 | 16.2 | 13.2 | 8.0 | 4.3 | 4.9 | 2.9 |
| Productive investment..... | 12.5 | 12.3 | 5.2 | 13.3 | 14.1 | 9.0 | 5.8 | 7.1 | 5.9 |
| Industrial..... | 12.6 | 14.5 | 5.2 | 13.0 | 15.6 | 10.4 | 4.3 | 4.9 | 2.1 |
| Agricultural..... | 18.1 | 5.8 | 4.4 | 12.8 | 7.0 | 2.4 | 10.2 | 10.6 | 14.7 |
| Nonproductive investment..... | 12.3 | 20.5 | 27.9 | 21.0 | 12.0 | 6.5 | 1.8 | 1.3 | -2.6 |
| Agricultural production | | | | | | | | | |
| Moving average for 3 years..... | 5.8 * | 8.5 | 7.1 | 1.8 | 2.0 | 1.6 | 2.5 | 0.6 | na |
| Straight annual average..... | 4.8 | 11.7 | -0.1 | 10.3 | -4.1 | 0.5 | 8.6 | -1.2 | -5.1 |
| Gross national product..... | 6.7 | 8.3 | 4.9 | 9.2 | 4.0 | 4.8 | 6.7 | 3.4 | 1.7 |

* Base year is 1951.

TABLE 2
USSR: AVERAGE ANNUAL RATES OF GROWTH IN INDUSTRIAL PRODUCTION, BY BRANCH OF
INDUSTRY 1951-1963

| | PERCENT | | | | | | | | |
|--------------------------------------|-----------|------|------|------|------|------|------|------|------|
| | 1951-1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 | 1963 |
| Industrial materials..... | 10.2 | 8.8 | 9.8 | 10.0 | 9.7 | 6.3 | 5.5 | 6.8 | 6.5 |
| Machinery..... | 10.5 | 8.7 | 8.2 | 7.0 | 7.8 | 10.3 | 9.9 | 8.6 | 7.0 |
| Civilian..... | 9.9 | 17.9 | 14.5 | 8.6 | 5.8 | 9.5 | 11.5 | 10.2 | 8.7 |
| Military..... | 11.2 | -0.5 | 0.8 | 4.5 | 10.6 | 11.7 | 7.8 | 6.6 | 4.6 |
| Nondurable consumer goods..... | 9.9 | 7.9 | 6.9 | 7.6 | 7.3 | 4.3 | 5.0 | 4.5 | 2.0 |
| Processed foods..... | 9.5 | 10.1 | 7.2 | 6.8 | 8.2 | 1.8 | 8.0 | 5.4 | 1.7 |
| Soft goods..... | 10.1 | 6.6 | 6.6 | 8.2 | 6.7 | 5.8 | 3.2 | 4.1 | 2.2 |
| Aggregate industrial production..... | 10.2 | 8.6 | 8.6 | 8.6 | 8.5 | 7.3 | 6.9 | 7.0 | 5.8 |

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TABLE 3

USSR: PRODUCTION AND ANNUAL RATES OF GROWTH OF IMPORTANT
INDUSTRIAL ITEMS 1959-1964 AND PLANS FOR 1965

| | AVERAGE ACTUAL 1959-1962 | ACTUAL 1963 | PRELIMINARY 1964 ^a | REVISED PLAN 1965 ^b |
|---|--------------------------------|----------------|----------------------------------|--------------------------------------|
| 1. Industrial production (percent)..... | 7.4 ° | 5.8 ° | 6.0 | 8.1 |
| 2. Machinery production (percent)..... | 9.2 ° | 7.0 ° | 4.5 ° | 9 |
| 3. Ferrous metallurgy | | | | |
| Crude steel | | | | |
| Million metric tons..... | | 80.2 | 84.9 | 90 |
| Percent..... | 8.6 | 5.1 | 5.9 | 6.0 |
| Rolled steel | | | | |
| Million metric tons..... | | 62.4 | 66.6 | 70 |
| Percent..... | 8.3 | 5.1 | 6.7 | 5.1 |
| 4. Fuels and power | | | | |
| Coal | | | | |
| Million metric tons..... | | 532 | 552 | na |
| Percent..... | 1.1 | 2.8 | 3.8 | na |
| Natural gas | | | | |
| Billion cubic meters..... | | 89.8 | 109.1 | 126.6 |
| Percent..... | 27.2 | 22.2 | 21.5 | 16.0 |
| Crude oil | | | | |
| Million metric tons..... | | 206.1 | 224 | 242 |
| Percent..... | 13.3 | 10.6 | 9.2 | 7.6 |
| Electric power | | | | |
| Billion KWH..... | | 412.1 | 453.3 | 510 |
| Percent..... | 11.9 | 11.6 | 10.0 | 12.5 |
| 5. Chemicals production (percent)..... | 9.9 ° | 11.9 ° | 18.0 | 15 |
| Mineral fertilizers, gross weight | | | | |
| Million metric tons..... | | 19.9 | 25.5 | 33.5 |
| Percent..... | 8.6 | 15.5 | 28.1 | 31.4 |
| Chemical fibers | | | | |
| Thousand metric tons..... | | 308 | 357.3 | 416 |
| Percent..... | 13.7 | 11.2 | 16.0 | 16.4 |
| Plastics and synthetic resins | | | | |
| Thousand metric tons..... | | 589.4 | 702 | 900 ^c |
| Percent..... | 16.4 | 24.6 | 19.1 | 28.2 |
| 6. Soft goods (percent)..... | 5.0 ° | 2.2 ° | 3.4 ° | na |
| Fabrics | | | | |
| Million square meters..... | | 6,849.7 | 7,225.4 | 7,414 ^d |
| Percent..... | 3.4 | 2.9 | 5.5 | 2.6 |
| Leather footwear | | | | |
| Million pairs..... | | 463 | 474 | 477 |
| Percent..... | 6.4 | 1.4 | 2.4 | 0.6 |
| Knitted articles | | | | |
| Million units..... | | 687.3 | 766 ° | 922 |
| Percent..... | 6.7 | 6.7 | 11.4 | 20.4 |

See footnotes at end of table.

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TABLE 3 (Continued)

| | AVERAGE ACTUAL 1959-1962 | ACTUAL 1963 | PRELIMINARY 1964 ^a | REVISED PLAN 1965 ^b |
|-----------------------------------|--------------------------------|------------------|----------------------------------|--------------------------------------|
| 7. Processed foods (percent)..... | 5.8 ^c | 1.7 ^c | 2.1 ^c | 10 |
| Sugar (beet and cane granulated) | | | | |
| Million metric tons..... | | 6.22 | 6.89 | 8.61 |
| Percent..... | 9.5 | -20.3 | 10.8 | 25.0 |
| Vegetable oil ^d | | | | |
| Million metric tons..... | | 2.21 | 1.84 | 2.15 |
| Percent..... | 9.6 | 4.6 | na | 17.0 |
| Meat ^e | | | | |
| Million metric tons..... | | 5.4 | 4.3 | na |
| Percent..... | 9.3 | 12.6 | -20.0 | na |

^a Based on reported performance of the first nine months of 1964 and estimated performance during the last three months of the year.

^b Reported in December 1964. Percent changes are relative to preliminary 1964 production.

^c Rates of growth for 1959-1964 are based on CIA indexes.

^d Based on the assumption that the goal given by Kosygin was expressed in linear meters.

^e Based on performance during the first half of the year.

^f Excluding kolkhoz production.

^g Excludes kolkhoz and household production.

TABLE 4

SOVIET DEFENSE EXPENDITURES, BY CATEGORY OF EXPENDITURES* (1955-1970)

| | 1955 | 1958 | 1962 | 1963 | 1964 | Billion Rubles 1970 |
|---|-----------|-----------|-----------|-----------|-----------|------------------------|
| Total Expenditures | 15.0-15.8 | 13.3-14.8 | 15.7-18.8 | 15.6-19.5 | 15.0-19.9 | 13½-23½ |
| Operating ^a | 7.9 | 6.8-6.9 | 6.4-7.4 | 6.7-7.7 | 6.8-7.9 | 6½-8½ |
| Investment ^b | 6.5-6.7 | 5.2-5.8 | 6.9-7.7 | 6.2-7.5 | 5.2-7.2 | 3½-7 |
| Including: Procurement of missile systems, ground electronics, and nuclear warheads..... | (1.0) | (1.6-1.9) | (3.7-4.1) | (3.3-4.0) | (2.6-3.7) | (2-3½) |
| Research, Development, Test, Evaluation and Space.... | 0.6-1.2 | 1.3-2.1 | 2.4-3.7 | 2.7-4.2 | 2.9-4.8 | 3½-8½ |

* NOTE: Because of rounding, components may not add to the totals shown. The upper end of the range of expenditures was used in calculating rates of change presented in paragraphs 23-24.

^a Operating expenditures include all expenditures for personnel and operation and maintenance.

^b Investment includes all expenditures for procurement of military equipment and construction of facilities.

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TABLE 5
USSR: METHOD OF FINANCING THE
SOVIET HARD CURRENCY DEFICIT
1959-1964

| YEAR. | * HARD CURRENCY DEFICIT * | SALES OF GOLD ^b | Million Current US \$ |
|-------------------------|---------------------------------|-------------------------------|--|
| | | | NET |
| | | | MEDIUM- TERM |
| | | | CREDITS FROM THE INDUSTRIAL WEST ^c |
| 1959..... | -100 | 303 | 40 |
| 1960..... | -300 | 149 | 168 |
| 1961..... | -250 | 310 | 135 |
| 1962..... | -350 | 239 | 117 |
| 1963..... | -375 | 520 ^d | 61 |
| 1964 ^d | -700 | 500 | 16 |

* As a result of trade with total non-Communist world.

^b Minimum estimates.

^c The USSR almost certainly obtained no medium-term credits from the West before 1959. Figures in this column include an allowance for interest at an annual rate of 5 percent.

^d Preliminary estimate.

TABLE 6
USSR: ESTIMATED MEDIUM-TERM CREDITS
FURNISHED BY THE INDUSTRIAL WEST *
1959-1964

| YEAR | NEW CREDITS | REPAY- MENTS | INTER- EST ^b | Million Current US \$ | |
|-------------------------|----------------|-----------------|----------------------------|-----------------------|--|
| | | | | NET | OUT- STANDING DEBT AT THE END OF THE YEAR |
| | | | | CREDITS | |
| | | | | | |
| 1959..... | 50 | 10 | 0 | 40 | 40 |
| 1960..... | 225 | 55 | 2 | 168 | 210 |
| 1961..... | 250 | 105 | 10 | 135 | 355 |
| 1962..... | 300 | 165 | 18 | 117 | 490 |
| 1963..... | 300 | 215 | 24 | 61 | 575 |
| 1964 ^c | 300 | 255 | 29 | 16 | 620 |

* Including only those credits obtained from Western industrial suppliers in connection with purchases of machinery and equipment. The average length of credit is five years. Excluding short-term financing (18 months or less).

^b Interest computed at an annual rate of five percent.

^c Preliminary estimate.

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TABLE 7

USSR: PRODUCTION, DISPOSITION, AND RESERVES OF GOLD •
1955-1965

| YEAR | PRODUCTION | NET CONSUMP- TION | SALES ^b | OTHER ADDITIONS AND WITH- DRAWALS (NET) | Million Current US \$ | |
|-------------------------|------------|-------------------------|--------------------|--|-----------------------|---|
| | | | | | CHANGE IN RESERVES | RESERVES AT THE END OF THE YEAR ^a |
| 1955..... | 121 | 20 | 70 | 11 | 42 | 3,000 |
| 1956..... | 117 | 20 | 154 | <i>Negl.</i> | -57 | 2,900 |
| 1957..... | 119 | 20 | 275 | 21 | -155 | 2,800 |
| 1958..... | 125 | 20 | 182 | 14 | -63 | 2,700 |
| 1959..... | 136 | 20 | 303 | 18 | -169 | 2,500 |
| 1960..... | 144 | 37 | 149 | 0 | -42 | 2,500 |
| 1961..... | 154 | 37 | 310 | 0 | -193 | 2,300 |
| 1962..... | 168 | 37 | 239 | 0 | -108 | 2,200 |
| 1963..... | 179 | 37 | 520 ^c | 0 | -378 | 1,800 |
| 1964 ^c | 190 | 37 | 500 | 0 | -347 | 1,500 |
| 1965 ^c | 205 to 210 | | | | | |

^a Rounded to the nearest hundred million.

^b Minimum estimates.

^c Preliminary estimate.

TABLE 8

USSR: AVERAGE ANNUAL PERCENTAGE GROWTH IN PER CAPITA CON-
SUMPTION 1951-1963 AND PROJECTED 1964-1965

| | PERCENT | | | | |
|---------------------------|---------------|---------------|---------------|---------------|---|
| | 1951- 1955 | 1956- 1959 | 1960- 1961 | 1962- 1963 | ESTI- MATED PROJECTIONS 1964- 1965 ^a |
| Total consumption..... | 5.7 | 3.8 | 2.5 | 2.2 | 2.1 |
| Nonfood goods..... | 10.9 | 5.7 | 4.2 | 1.8 | 3.1 |
| Soft..... | 9.8 | 5.0 | 3.3 | 1.2 | 2.4 |
| Durable..... | 21.0 | 10.3 | 8.7 | 4.8 | 6.2 |
| Food..... | 4.3 | 2.9 | 1.2 | 1.4 | 0.4 |
| Animal products..... | 2.9 | 5.4 | -1.5 | 2.5 | <i>na</i> |
| Processed foods..... | 10.3 | 4.6 | 4.4 | 4.5 | <i>na</i> |
| Basic foods..... | 1.5 | -1.4 | 0.8 | -3.6 | <i>na</i> |
| Services..... | 4.5 | 4.7 | 5.0 | 4.9 | 5.7 |
| Health and education..... | 3.6 | 3.5 | 4.8 | 3.8 | 4.6 |
| Housing..... | -0.1 | 2.4 | 1.9 | 1.2 | 0.9 |

^a Based on Soviet plans for nonfoods and services and estimate of trend in food consumption.

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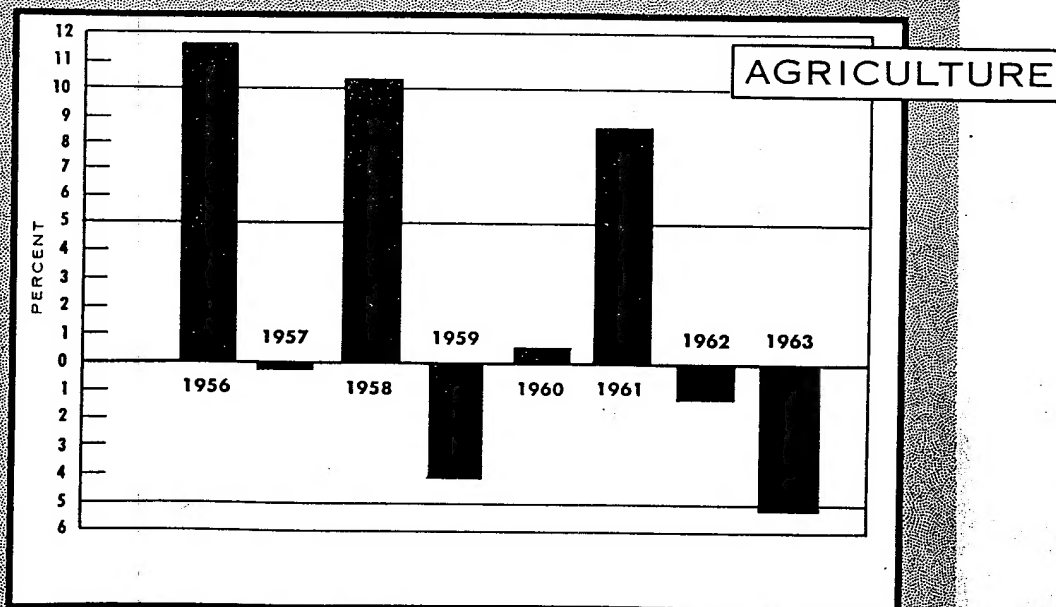
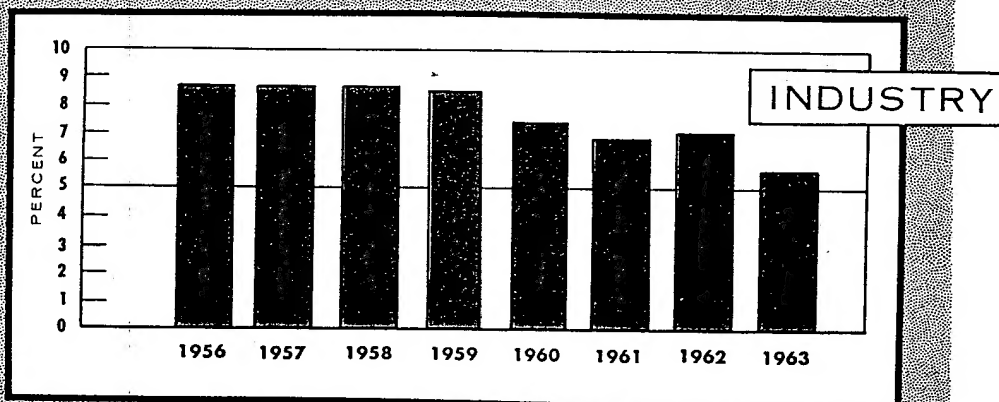
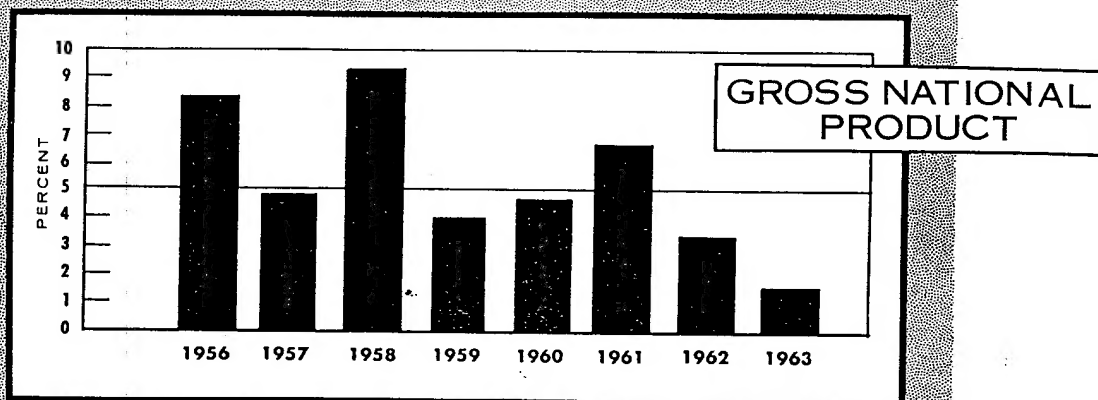
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ANNEX B

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USSR: GROWTH IN GROSS NATIONAL PRODUCT, IN INDUSTRY, AND IN AGRICULTURE, 1956 - 1963

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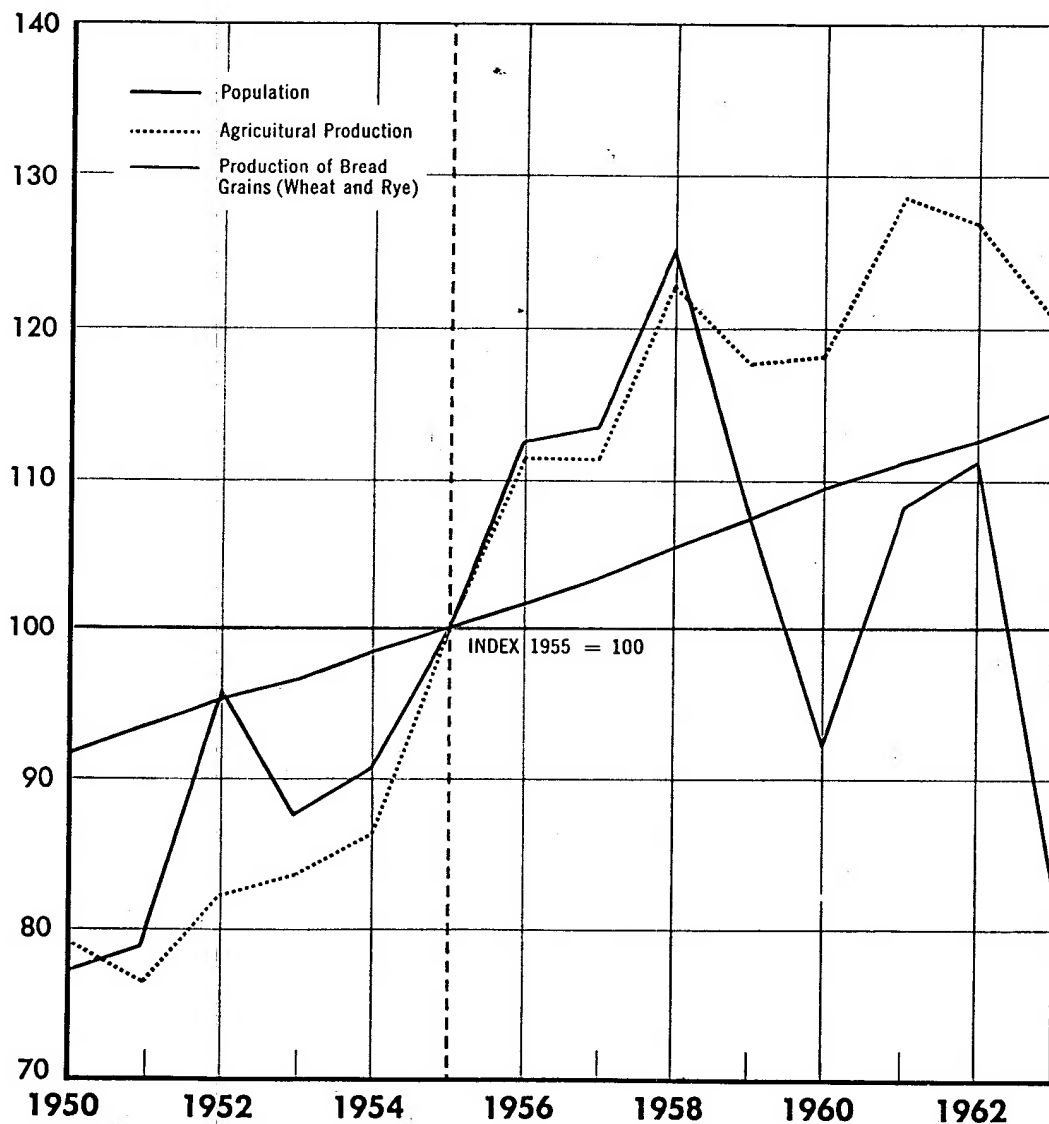
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ANNEX B

Figure 2

USSR

INDEXES OF NET AGRICULTURAL PRODUCTION,
POPULATION, AND PRODUCTION OF BREAD
GRAINS (WHEAT AND RYE), 1950-63



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